The Busy Nurse's Guide to Financial Planning

A Joint Project of the
Center for American Nurses and
WISER, the Women's Institute for a Secure Retirement

Made possible through a grant from the FINRA Investor Education Foundation

WISER®

THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

CENTER for American Nurses™

Serving the Needs of Nurses Today & Tomorrow

The Nurses' Investor Education Project is a joint project of the Center for American Nurses and WISER, the Women's Institute for a Secure Retirement, with funding from the FINRA Investor Education Foundation.

WISER is a 501(c)(3) organization, established in 1996 by the Heinz Family Philanthropies to improve the opportunities for women to secure retirement income.

The Center for American Nurses is a national professional nursing organization that educates, equips, and empowers nurses to advocate for themselves, their profession, and their patients.

The FINRA Investor Education Foundation provides underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. It is the largest foundation in the U.S. dedicated to investor education.

FINRA

Investor Education

FOUNDATION

Foreword

The Center for American Nurses has teamed up with the Women's Institute for a Secure Retirement (WISER) in an effort to help nurses successfully manage and build their wealth into retirement. The program received a generous grant from the FINRA Investor Education Foundation. This booklet is one aspect of the initiative.

Surveys and focus groups of nurses across the country have uncovered the challenges nurses face when it comes to planning for retirement.
For example:

- 61% of nurses say they do not have time to focus on securing their own retirement because of other time consuming priorities.
- 59% say they do not know where to begin.
- Just 6% of nurses say they feel knowledgeable about investing.

You will find additional results from our national survey throughout this booklet, as well as comments heard during the focus groups.

The Center and WISER have developed resources, including this booklet, to help you focus on your financial planning challenges and needs. This guide is based on in-person financial education workshops we conducted for nurses across the country. Participants have found this content to be useful to them. We trust you will find it useful, too.

This booklet is intended to provide general information. Please do not use it as a substitute for legal or other professional advice.

Table of Contents

Introduction

You probably became a nurse because you want to take care of people. You spend your shifts caring for or about the people in your charge – whether you are working directly with patients or managing those who do.

When you walk out the door at the end of your workday, you have given your all. But you rally. You take care of the things your life demands of you – whether it is the kids or your partner, the house or the bills. The last thing you are inclined to do is focus on retirement planning. After all, if you cared about financial issues, you would have become an accountant or a broker, right?

But here is the problem: Nurses face a bleak retirement future by virtue of being predominantly female, increasingly of ethnic minority background, and over 40 years of age. Any of these three factors would put you at risk for poverty in retirement. As a working professional, you are probably thinking poverty could never happen to you. But the risks are out there. That is the bad news.

The good news is that you can act now to reduce those risks. And you do not need to be an accountant or a broker to understand what actions to take. Protecting yourself from poverty in retirement is doable, even for nurses with so much going on in their lives. This guide will show you how.

You are spending your working years taking care of others. Take some time to care for yourself by reading this booklet today. It is time to make sure your financial future is a healthy one.

Needs in Retirement

"[I] don't know what I need for retirement . . .
[I'm] afraid it's not enough."

Before you can start planning how to fund your years in retirement, you have to know what financial needs you will have. When asked in our survey if they knew what their financial needs would be in retirement, 62% of nurses said they did not know.

First, you will need income to pay for basic expenses like rent or a mortgage if you carry one into retirement. Other basic expenses will include utilities, food, and transportation.

A major financial need in retirement is medical and prescription coverage. You will qualify for Medicare once you turn 65. You pay premiums for a wide range of health services through Medicare. You should consider buying insurance to pay bills that Medicare won't cover. This includes (1) "Medigap" insurance, to pay medical bills that are outside Medicare limits, (2) Medicare Part D insurance, to help pay for prescription drugs, and (3) long-term care insurance, to pay for long-term care needs either in a nursing home or in your own home.

Women are at higher risk for needing long-term care services since they live longer. The cost can place a heavy burden on you and on your family. It is important to consider purchasing long-term care insurance coverage. You can find useful information through the National Clearinghouse for Long-Term Care Information, at **www.longtermcare.gov**. More details about long-term care will be covered later in this booklet.

Where Retirement Money Comes From

The three main sources of retirement income are Social Security benefits, employer-sponsored pension and savings plans, and individual savings and assets.

Social Security

Social Security benefits are an essential foundation for retirement income. Social Security provides not only retirement income, but also disability insurance and survivor's benefits for children and spouses. If not for Social Security, more than half of older women today would live in poverty.

Social Security provides a foundation of support. Unfortunately, many retirees rely on it as their primary source of retirement income—something it was never intended to be. The average monthly benefit for retired workers is $1,307 for men and $1,009 for women.

You earn Social Security benefits by paying into the system during your working years. As long as you accumulate at least 40 "service credits," you are eligible for a benefit. Generally, this equals 10 years of paid employment.

The Social Security Administration calculates benefits based on your 35 highest-paid years of employment, after adjusting for growth in average wages over time. For an average worker, Social Security benefits will replace about 40% of his or her final year's income.

A spouse may collect Social Security benefits based either on his or her own work record, or based on his or her status as a spouse or ex-spouse (provided they were married to their ex-spouse for ten years or more and are not married).

Benefits in Retirement

You may start receiving Social Security benefits as early as age 62. But for full benefits, you have to wait until full retirement age. It pays to consider working beyond full retirement age. The benefits increase dramatically.

Year of Birth	Full Retirement Age	% benefit reduction if retiring at 62	Percentage growth in monthly benefit by waiting from age 62 to 70
1943 to 1954	66	25.00	76%
1955	66 and 2 months	25.84	76%
1956	66 and 4 months	26.66	76%
1957	66 and 6 months	27.50	77%
1958	66 and 8 months	28.33	77%
1959	66 and 10 months	29.17	77%
1960 and later	67	30.00	77%

At age 65, you are eligible to enroll in Medicare — the federal health insurance program. Contact the Social Security Administration (800-772-1213) several months before your 65th birthday for more information.

—SOURCE: Social Security Administration

Let's look at an example of how the benefits adjust based on age at retirement. Note that the monthly benefit increases up to age 70.

Ann is 59 (born in 1950). She earns $50,000 a year.

Ann's Retirement Age	Ann's Monthly Social Security Benefit
62 (early retirement)	$1,157
66 (full retirement)	$1,543
70 (latest age for benefits to increase)	$2,037

—Source: 2009 OASDI Trustees Report, Table V.C3

For many workers, retiring later will not be an option due to health or other reasons. But for those who can work longer, it pays off in much higher monthly benefits from Social Security.

Social Security's annual cost-of living adjustment (COLA) is especially valuable to retired women. Maximizing your Social Security benefit may be your best way to avoid poverty in your 80s and 90s.

Employer-Sponsored Pension and Savings Plans

Traditional pension plans typically pay a monthly benefit for life to those employees who earn them. However, these plans cover only about a fifth of all workers today.[1]

Our survey suggests nurses have a much higher likelihood of earning benefits under a traditional plan. Almost half (48.9%) of nurses say they expect to have income from a traditional pension when they retire.

Workers today are far more likely to participate in a retirement savings plan at work, such as a 401(k), 403(b), 457, or Thrift Savings Plan. In our survey, 79% of nurses report participating in this type of retirement savings plan.

Through retirement savings plans, workers contribute a percent of income from their paychecks, which employers often match. Workers decide how to invest their contributions based on what is available through the plan.

"I got smart and invested what was matched."

How much you should contribute depends largely on how long you have between now and retirement, and what you have saved so far. A good general rule is to contribute 10% - 15% of your income. This includes any employer matching contribution. According to our survey, 26% of nurses are saving 6%-11%, and 19% are saving 11%-15%.

If you are not participating and a retirement savings plan is available to you, sign up today!

If you are not participating and a retirement savings plan is available to you, sign up today! Contact your human resources manager to find out how. Plan to contribute at least enough to get the employer match, which is essentially free money.

Individual Savings and Assets

If you do not have access to an employer plan, you can save for retirement through an Individual Retirement Arrangement (IRA). You can open an IRA through your bank or financial institution. You have the choice of a Traditional or Roth IRA. IRAs will be covered in greater detail later on in the booklet.

---

1 Source: EBRI, *Retirement Trends in the United States Over the Past Quarter Century*. June 2007.

Investment Concepts and Types

Time horizon. Risk tolerance. Asset allocation. Diversification. These are just some of the words that float around the financial planning sphere. They sound a lot more complicated than they actually are, though. Let's break them down one by one.

How Long Do You Have Until Retirement?

In a nutshell, this is the definition of **time horizon**. It is how long you have until you need the money for a financial goal. Why does time horizon matter? Because how long you have will drive how you invest your money.

So how long do you have? If your goal is less than three years away, you have a short time horizon. You will want to invest your money in a way that does not expose you to potential losses.

If your goal is in the range of three to ten years, you have a **medium time horizon**. With this amount of time, you still want to play it safe for the most part, but you can also choose some investments that have the potential of higher returns. Higher returns can come only from taking more risk with your money, something that will be talked about a little further on in this section.

What if your goal is more than 10 years away? You have a **long time horizon**. This means you have the opportunity to take more risk with your investments, because you have a long time to make up losses you may experience.

	Short Time Horizon (-3 years)	**Medium Time Horizon (3-10 years)**	**Long Time Horizon (+10 years)**
Focus on:	Safety and liquidity	Modest growth with minimized risk	Maximize your return
Invest in:	Treasury bills, CDs, money market accounts	Mix of stocks, bonds, T-bills; adjust as goal nears	Subtract your age from 100 and invest that percentage in stocks

How Much Risk Can You Take With Your Investments?

Investment risk is the chance that your investment may lose value. It is tied directly to your time horizon. Also tied to it is your ability to withstand the ups and downs emotionally.

"A bird in the hand is worth more than two in the bush. [I'm] not a risk taker. . . ."

Through the survey and focus groups, we found that nurses tend to be risk averse. Yet, the majority who responded to the survey have a long time horizon until retirement, so they are in a good position to take on calculated investment risk.

For your money to make money over time, you need to take at least some risk. Without risk, you may never meet your long-term financial goals.

Many people lost a lot of money in the market downturn of 2008. Those who have long time horizons will be able to make up for the losses. Experts estimate that it will take an average of two to nine years to make up the losses investors experienced.[2] The important message here is that increased investment risk makes sense in the context of having a long time horizon.

How Can You Manage Risk?

The good news is that you can manage investment risk. It is all in where you put your money. You can spread risk through processes known as **asset allocation** and **diversification**.

2 Reuters online. "New Research From EBRI: Analysis Estimates Impact of Market Losses on 401(k) Account Balances," February 23, 2009.

Asset Allocation

Asset allocation is simply deciding what percent of your savings should go into which type of investment.

The three main "asset classes" – or types of investments – are stocks, bonds, and cash:

- **Stocks** – ownership of a little piece of a company
- **Bonds** – a loan to a company or governmental entity
- **Cash** – money market accounts, Treasury bills, CDs

Your investment success relies mostly on how you invest across these asset classes, not from picking stock "winners." Historically, stocks have offered higher returns than bonds. But the values of stocks can also go up or down sharply, and are more likely than bonds to lose money in any single year. Your goal is to put your money into different asset classes based on when you will need it, and how much risk you can handle. Young people generally can afford to take more stock-market risk, but as people get older they may want to invest more in bonds.

Stock Types	General Characteristics
Growth	Companies whose earnings are expected to grow faster than those of other companies.
Income	Companies that normally pay dividends to investors.
Value	Companies whose stock is selling for a low price or is considered undervalued. The lower price is usually because of perceived bad news, for example, earnings are poor or the industry is out of favor.

Stocks

Corporations can raise money (capital) by offering ownership shares (equity shares) of the company to investors. These shares are "stock" in the company. By investing in the stock of a company, you (and many other investors) own a small share of that company.

You can make money investing in stocks through **dividends** and **capital gains**:

- **Dividends** are the payments some companies disburse to investors from their profits. Not all companies pay dividends.
- **Capital gains** occur when you sell stock for a higher price than you paid to buy it. Conversely, if you sell stock for a lower price than you paid for it, you experience a capital loss.

Stocks carry a substantial risk that you may lose some or all of your investment. Generally, the higher the risk of an investment, however, the higher its potential returns. You can manage this risk by spreading your savings across asset classes. You can also manage risk by diversification, which will be covered in the next section.

Reason You May Want to Invest	Disadvantages
As earnings increase, the price of the stock and value of your investment may go up.	When growth slows, or the market stalls, stock prices can and do go down, and so can the value of your investment.
Your money can potentially grow in two ways: through dividend income or through increases in the stock price	Watch out for stocks that pay extra high dividends; it may be a sign of problems in the company. Also, the stock price can go down.
When, and if, value stocks report better than expected performance, their stock price can rise significantly.	The stock price could stay the same or drop.

Bonds

Bonds are debt investments. With bonds, you loan money (your principal), either to a company or government entity. You receive interest payments, in addition to getting your principal back on a stated date. Bonds are "fixed-income" investments; they pay a fixed interest rate over the time you hold them.

The **face value** of a bond is the amount of money you are lending and expect to get back. The **maturity date** is when the principal is due to be paid back to you. The **term** is the length of time until the bond matures.

Bonds generally don't go up & down in value as much as stocks do. However, bonds' historical returns have been lower, especially after considering the effect of inflation. By investing partly in bonds, you avoid risking extreme swings in your retirement funds. Reducing your investment risk becomes more important as you get closer to retiring.

Bond Types	General Characteristics
U.S. Treasury Bills, Notes and Bonds	Issued and backed by the U.S. government. Considered among the safest investments. Rather than paying interest, T-bills are purchased at a discount price, and redeemed at maturity for face value. Notes and bonds pay interest twice a year.
I Bonds	Issued and backed by the U.S. government. Considered among the safest investments. Designed to protect against inflation.
EE Savings Bonds	Issued and backed by the U.S. government. Considered among the safest investments. Pays a fixed rate over the life of the bond. Treasury guarantees value will double in 20 years.

You can make money investing in bonds through interest payments and capital gains:

- The **interest payment** is what the bond issuer commits to pay, in addition to your principal.
- **Capital gains** occur when you sell a bond before it matures for more than you paid for it.

Bonds are typically safer than stocks if the issuer has a good credit rating, and they generally have smaller ups and downs in their market prices. However, they still carry risk. For example, you run **credit risk**, which is the chance that the bond issuer will not be able to pay you back as promised. You can find out about the credit risk of an issuer by referring to its credit rating. Two bond-rating companies are Moody's and Standard & Poor's.

Bonds carry **interest rate risk** as well. For example, if you have to sell a bond before it matures, you may not get all your money back if interest rates have gone up since you bought it. As interest rates rise, bond values fall.

	How They Work	Disadvantages
	Sold in $100 increments. Maturity ranges from a few days to 30 years. Interest is not taxable on state returns. Can be sold before maturity if needed.	If you sell before maturity, you may not get all your money back if interest rates have gone up since you bought the bond. Interest yields are lower than for similar corporate bonds, which have credit risks. Value of a note or bond will fall when interest rates go up, especially a bond that won't mature for many years.
	Available for $25 and up, and can be sold after one year. Interest is not taxable on state returns. Can be sold before maturity if needed.	If sold within the first five years, you will lose the previous three months' interest.
	Available for $25 and up, and can be sold after one year. Interest is not taxable on state returns. Can be sold before maturity if needed.	If sold within the first five years, you will lose the previous three months' interest.

Bond Types continued

Bond Types	General Characteristics
Municipal Bonds	Issued by states, cities, counties, other municipalities to raise money for public works. Bond issuer is rated for credit risk by bond agencies, Moody's and Standard & Poor's.
Corporate Bonds	Corporations issue them to raise money. Bond issuer is rated for credit risk by Moody's and Standard & Poor's. Bonds of issuers with low credit ratings ('junk bonds') pay the highest interest rates because they have the most risk.

	Reason You May Want to Invest	Disadvantages
	Interest is free of federal income taxes. These bonds pay low rates of interest and are useful only to people who must pay high federal income tax rates. Interest may be free of state income taxes if issued by bond-holder's state. Can buy in $5,000 increments. Maturity ranges from a few months to 40 years. Most pay interest twice a year. Can be sold before maturity if needed.	The low rates of interest are a disadvantage, but sometimes are justified by tax savings because of the tax-free feature. Value of a bond will fall when interest rates go up, especially a bond that won't mature for many years. Municipal bonds should never be held in an IRA Issuer may not be able to repay at maturity. May not be able to sell quickly if you need the money.
	Can buy in increments of $1,000 ($5,000 minimum sometimes required.) Generally pay higher interest than Treasury bonds. Most pay interest twice a year. Can be sold before maturity if needed.	Can be "called" before maturity – you get your principal back. Value of a bond will fall when interest rates go up, especially a bond that won't mature for many years. Issuer may not be able to repay at maturity. May not be able to sell quickly if you need the money. Can be "called" before maturity – you get your principal back. If you have to sell before maturity, you may not get all your money back if interest rates have gone up since you bought it.

Cash

Cash investments are considered the safest investments. They still carry risk, but it is a different kind than stocks and bonds. Cash investments tend to earn very low rates of return. The risk you run is that your investment will not keep up with inflation, so your money may lose purchasing power.

Cash investments include certificates of deposit (CDs) and money market savings accounts. You can invest in these through your bank. The Federal Deposit Insurance Corporation backs them. This means if your bank fails, the federal government protects your money, up to $250,000. (The protected amount is temporarily set at $250,000; it reverts to $100,000 on December 31, 2013.)

Treasury bills are also cash investments. These are short-term investments offered by the U.S. government. They come in maturities ranging from one month to one year. Treasury bills are seen as the safest investment, since the federal government backs them.

Diversification

Diversification is a strategy to reduce risk by spreading assets across a mix of investment options and categories. For example, let's say you plan to put some of your savings into stocks. Instead of buying many shares of a single company's stock, you can buy into a pool of stocks of many different companies. These pools are **mutual funds**. If you are investing in a retirement savings plan through work or through an IRA, you are most likely choosing among mutual fund investments.

Mutual funds help reduce investment risk. You are not tying your investment performance to a single company. Mutual funds are the easiest and best means for most individual investors to save for retirement.

Mutual funds are also a good way to invest in foreign stocks, which let you diversify among different national economies and currency rates.

However, mutual funds still carry risk because most of their success is tied closely to the economy and the stock market. Before selecting a mutual fund, request a "prospectus" from the mutual fund company (it may be available online). The prospectus provides information about the fund's investment goals and risks, and states the fund's track record. While past performance does not guarantee future performance, it is one useful piece of information among many.

Investing in mutual funds comes with fees. The prospectus will list the amounts. Common fees include:

- **Load**. This is a sales commission charged generally when you buy into a fund or when you sell your shares. You can find many good mutual funds that charge no commission – these are no-load funds.
- **12b-1 fee**. If this is part of a mutual fund's expenses, then select another fund. The fee, which can be as much as one percent of your assets, is simply for the mutual fund company to raise money to market the fund to other investors.
- **Operating expenses**. This is what the fund charges annually to manage the fund.

These fees are automatically deducted from the value of your investment in the fund. Even small differences in fees can have a big impact on returns. Let's say you invest $10,000 in a fund. Look at what happens to the value of your investment with just a one-percentage point difference in operating expenses:

Amount invested	Annual return before expenses	Operating expenses	Value after 20 years
$10,000	10%	1.5%	$49,725
$10,000	10%	0.5%	$60,858

Source: **www.sec.gov**

A good way to keep mutual fund expenses low is to invest in **index funds**. These are funds that do not have big investment teams running them, but rather simply track a benchmark. For example, an S&P 500 Index Fund mirrors the Standard & Poor's list of 500 large publicly traded companies. The fund rises and falls as the market rises and falls. Interestingly, index funds tend to beat the performance of actively managed funds. It all comes down to expenses, which are low for index funds. Besides their good performance, Index funds are the simplest way to invest, requiring little research or know-how about investments.

You may have an option to contribute to a **target retirement date fund** — also called a **life cycle fund** — through your 401(k)-type plan. A **target retirement date plan** is intended to be a "set it and forget it" retirement investing option. You simply choose to contribute to a fund with a **target date** in the range of when you expect to retire, such as a **Target Date 2020 Fund**. The fund does all the allocating for you. When the date is far out, the investment is largely in stocks, and then the mix becomes more conservative as retirement nears.

However, despite how simple it sounds, choosing a **target date fund** – like any investment – still requires careful consideration. You can find many target funds with the same retirement age that have different investment approaches and ultimately different outcomes. Look at the fund's prospectus before you select it; make sure you are comfortable with the path the fund takes between now and when you expect to retire.

Another option is a **balanced fund** which has a set allocation, such as 60% in stock funds and 40% in bonds. The allocation does not change—it stays steady at 60/40, if that is the allocation mix you want. These funds typically seek moderate income growth with moderate risk. They attempt to find a "balance" between risk and return. But you still need to monitor your funds.

Developing a Retirement Plan

"I never thought about retirement until I was about to retire last year. Then I realized uh-oh…"

How do you take all that you have read so far in this booklet and turn it into a retirement plan? You have a lot of the components figured out already.

First you need to know how long you have between now and when you retire. Remember, your investment strategy will depend on your time horizon.

Then you need to know what income sources you will have. You can refer to the Social Security benefits statement you get right around your birthday each year to estimate your retirement benefits. If you have a traditional pension, contact your HR manager to get a benefits estimate. Look at your retirement savings plan statement to find your current balance. You will need that when you do the math.

Next, take a good guess at how long retirement may last. Look at your own health and your family history. Do you come from a long line of long-lived women? If so, it is likely you need to plan for a longer retirement.

It is important to be realistic about how long you may live. As women, we face "longevity risk." Risks of a long life include outliving savings, inflation, outliving a spouse, and unexpected health care needs, among others. Nurses seem to be realistic about how long their retirement may last. In our survey, 44% indicated they would likely live more than 20 years in retirement.

You then need to estimate your annual income needs in retirement. Financial planners typically say to target 60% - 80% of your pre-retirement income. But since women face longevity risk, we should use caution, and shoot for 90% - 100% of pre-retirement income.

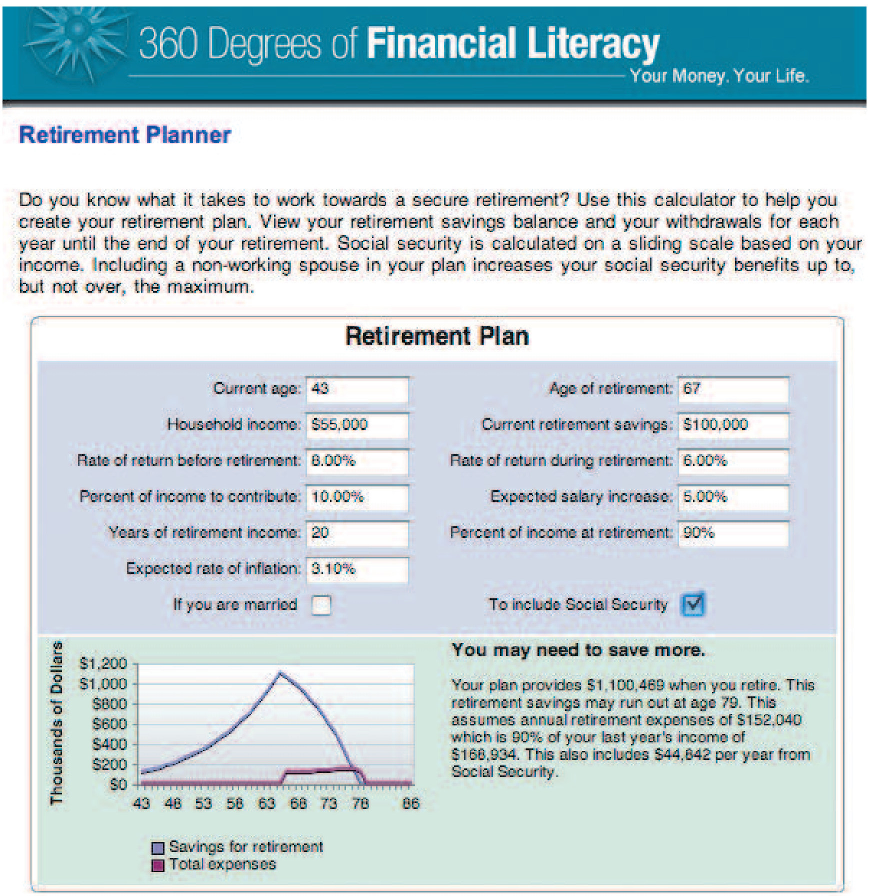
According to our survey, only 20% of nurses recognize they will likely need more than 80% of their pre-retirement income.

You can put all of this information to use with an online retirement planning calculator. Of all the calculators out there today, the one at

www.360financialliteracy.org[3] is one of the most straightforward. Here is an example using the calculator at this site:

- Kathy is 43 years old and plans to retire at age 67. This gives her a long time horizon, so she can invest for the potential of higher returns.
- Her current income is $55,000 a year, of which she contributes 10% to her 403(b) plan. So far, she has $100,000 in her account.
- Kathy assumes that her retirement will last for 20 years.

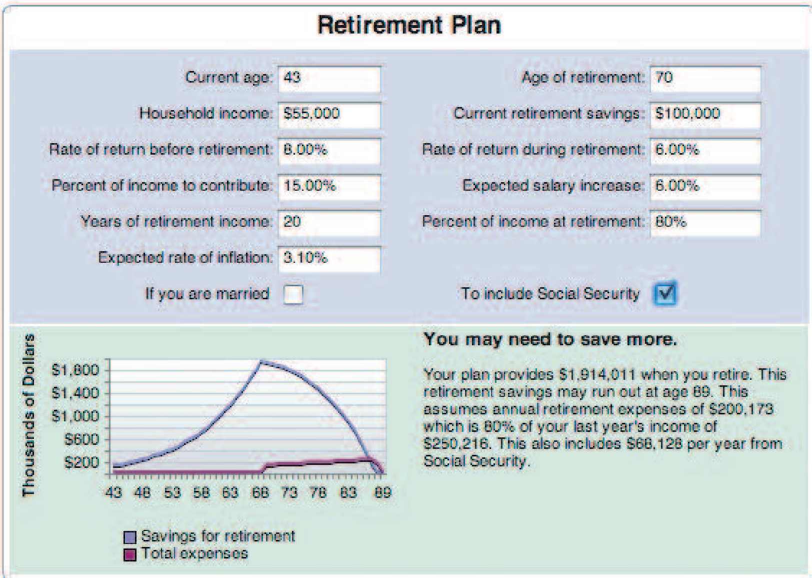
When Kathy inputs the information into the retirement calculator, she finds that she may not meet her goal:



3 Sponsored by the American Institute of Certified Public Accountants (AICPA). The site is a national volunteer effort of the nation's Certified Public Accountants to help Americans understand their personal finances and develop money management skills.

So, she thinks through things she might be able to change. For example, she could work until age 70, which will increase her Social Security benefit and retirement savings, and reduce her years in retirement.

This still leaves Kathy short. First, she lowers the percentage of income at retirement to 80%. Her next thought is to invest more and increase her future pay to 6%. She originally planned to contribute 10% of her income, but if she increases it to 15%, then her plan is closer to being on track:



Of course, it is easier to punch numbers into a calculator than it is to actually succeed or make these changes. But the calculator is a great tool for running through different scenarios.

Note about life expectancy

Life expectancy is merely an average for a group with similar characteristics (age, sex, etc.). Some in the group will die sooner, some much later — nobody knows. If you plan on living to your expected age at death, you have a 50-50 chance of outliving your savings. Instead of trying to predict your life expectancy, individuals should simply plan to live a long time, using a strategy that will work even if they live into their 90s. This may or may not include purchasing an annuity.

This calculator is one of many on the Internet. If you know you will receive benefits from a traditional pension plan, for example, consider using the "Ballpark Estimate" available at **www.choosetosave.org**.

Retirement Plans at Work

Retirement benefits provided through your workplace play a pivotal role in your retirement security. It is important that you understand if you are covered by these plans, and how they work. There are options outside of work-based plans for those who are self-employed.

Defined Benefit Plan

As we discussed earlier, defined benefit pension plans are on the decline, yet almost half of nurses expect to receive benefits from such a plan at retirement.

Here are things you need to know if you are covered by a defined benefit pension:

- Have you earned a right to the benefit? (You typically earn the right after five years of service.)
- How much it will be? (Ask your HR contact for a benefits estimate.)
- What happens if you retire early? (Your benefit amount may decrease.)

You can find answers to most of these questions through a document called the "Summary Plan Description," which should be readily available through your HR department.

If your spouse has earned a pension, know that federal law requires private pension plans to provide a pension to a worker's surviving spouse if the employee earned a benefit. The survivor benefit can only be given up with your written permission.

Defined Contribution Plan

We have already described the basics of defined contribution plans like 401(k)s, 403(b)s, 457 plans, and the federal Thrift Savings Plan. You can contribute up to $18,000 for 2015. If you are age 50 or older, you may be able to make a "catch up" contribution of an additional $6,000 for 2015.

The money is for retirement, so you may pay a penalty if you take it out before age 59½. Whenever you take money out, you must pay ordinary income tax on the amount you withdraw in addition to any penalty.

It typically takes three or more years to earn a right to the employer match; this is called "vesting." Make sure you know how long you need to stay to vest, or you risk losing benefits!

Nurses are especially susceptible to "leakage" in their 401(k)-type plans. As frequent job changers, nurses have an opportunity to cash out of the plan. This is not a good idea. Here are three reasons why:

First. You have saved that money for retirement, and you should keep it for retirement.

Second. It will be harder for you to afford retirement if you cash out between jobs.

Third. You may have to pay income taxes and a penalty tax on the benefits you cash out before age 59½.

When you change employers, your options are the same whether you voluntarily leave or not. If your balance is more than $5,000, you can usually leave your money in the plan. Otherwise, plan to roll your balance into the new employer's plan or open a Rollover IRA. Ask for a "direct rollover" of funds from one plan to another—do not have the check made payable to you.

Most plans allow you to take a loan under certain circumstances. Loans are not a good idea, and you should understand the risks. Also, you will need to pay the loan in full if you decide to leave the employer. If you do take a loan, you generally have to pay it back within five years.

What You Need to Know About Divorce and Retirement Benefits

Under all state laws, a pension earned during marriage is a joint asset, but it is not divided automatically at divorce. You must ask for a share of the pension at the time of divorce. You will need to submit a special court order stating your right to a portion of your ex-spouse's pension to the retirement plan. This is known as a "Qualified Domestic Relations Order" (QDRO).

If you find yourself facing a divorce:

* Check to see if your spouse has more than one pension.
* Find out how much of a benefit your spouse has earned from each pension.
* Include survivor benefits in the pension court order.

A Plan for the Self-Employed

It is all fine and good for us to tell you about work-based retirement and pension plans. But what if you are self-employed? Well, it turns out that you still have a retirement savings option that is better than simply opening an IRA.

A SEP plan is an IRA for the self-employed and small businesses. But, unlike the IRA you may know about, this one has much higher contribution limits. You can contribute up to 25% of your compensation, or $53,000, whichever is greater. A SEP requires just a short form available from the IRS. You can set up a SEP plan through a bank, credit union or other financial institution.

Traditional and Roth IRAs

If your employer does not offer a pension plan or a 401(k)-type plan, it is especially important that you contribute to an IRA. You can set one up through your bank or credit union, or other financial institutions.

Generally, there are two types of IRAs, a Traditional and a Roth. Each offers different tax benefits. Your total individual contribution to all your IRAs is limited to $5,500 per year. People age 50 and older can make additional "catch-up" contributions of up to $1,000 a year. The deadline for the annual contribution is April 15 of the following year, though the earnings will accrue more quickly if you contribute earlier.

Traditional IRA

The traditional deductible IRA offers two tax breaks if you are eligible. First, the federal government allows you to delay paying tax on the money you contribute depending on your income. For example, if you earn $30,000 a year and contribute $5,000 to an IRA, you pay income tax on just $25,000 of your income. You'll have to pay income tax on any money you take out.

In addition, all of your investment earnings from an IRA are tax-deferred. This means that you pay no taxes until you take money out. If you withdraw any money before age 59½, you may have to pay a 10% penalty tax in addition to the regular income tax. You are allowed, however, to make penalty-free withdrawals for college tuition and catastrophic illness. You may also withdraw up to $10,000 for a first-time home purchase.

Roth IRA

The Roth IRA provides tax benefits at retirement rather than upfront. You cannot deduct contributions to a Roth IRA on your tax return. However, when you begin withdrawing funds from your Roth IRA after age 59½, you usually will not have to pay any tax.

Unlike the Traditional IRA, the Roth IRA is available even if you participate in a company retirement plan. However, there are income limits. You are ineligible for a Roth if your adjusted gross income (AGI) exceeds $116,000 for singles and $183,000 for married couples. You can make a partial contribution if your income is between $116,000 and $131,000 for singles, and between $183,000 and $193,000 for couples.

If you qualify for a Roth IRA, studies show it may have tax advantages over a traditional IRA in many situations.

A Way to Make Savings Last a Lifetime

Many Americans use their retirement assets too quickly and later find out they have to cut back on necessities because they cannot afford a decent standard of living. This outcome can be particularly difficult for women because they often live longer than men do. In fact, married couples sometimes fail to adequately plan for the time when one of them is living alone and their income from pensions and Social Security may be less.

Meanwhile, others may be too conservative about spending their retirement savings, and later find they could have lived more comfortably. Somehow, retirees need to steer a safe path between these two major pitfalls: running out of money or, perhaps a lesser evil, living below the standard and depriving themselves of the things they wanted and could have afforded.

According to our survey, information on making savings last a lifetime is in high demand among nurses, with 78% saying they are interested in learning about it.

An **immediate annuity** lets you convert part of your retirement savings to a guaranteed stream of lifetime income. This gives you the security of knowing that you will continue to receive money each month for the rest of your life – even if you live to be 100 or older. The insurance company takes on the risk of figuring out how to make the money last as long you will live, so that you do not have to worry about it.

Be aware that insurance companies offer several kinds of annuity products. Make sure you are considering "immediate" annuities, rather than "deferred" or "variable" annuities. An immediate annuity—sometimes called a payout annuity—converts a sum of money into regular income. Deferred or variable annuities are investment vehicles to accumulate money, and are very different products.

You can buy an immediate annuity with funds available from a 401(k) plan, IRA, savings account, life insurance policy, inheritance, or the sale of a home. An insurance company that you select invests the money and makes regular payments, either by check to you or by automatic deposit to your bank or financial institution.

If you expect to live at least a normal lifetime, it is a good idea to put some, but not all, of your retirement savings into an immediate annuity. Keep some of your savings available for unexpected expenses.

You can choose how often you receive a payment: every month, quarter, half-year, or year. The amount of income depends on the amount of money that you have to buy the annuity, plus a number of factors including your age, sex, income option selected, and interest rates at the time of purchase.

The basic types of immediate annuities are:

A life annuity, which pays the same benefit amount each month until your death.

A joint and survivor annuity, which pays a benefit to you for life, and then some percentage to your surviving spouse for the remainder of his or her life.

A life annuity with payments guaranteed, which provides life income, but if you die within a set period (such as 5-10 years), the benefits will continue for the rest of that period to a beneficiary you name.

Some advisors suggest buying an immediate annuity after you retire, roughly between the ages of 70 and 80, if your prospects for a long life are still good. As you get older, the rates will be more attractive and there will be less risk of future inflation. Another option is to buy multiple annuities at different times, to allow you to spread out the interest rate risk.

Some insurance companies offer annuities that keep pace with inflation. While this feature costs more, it can play an important role in maintaining your standard of living.

You will want to find a strong insurer if you are interested in purchasing an annuity. Several insurance company rating services measure insurers' financial strength. Your public library can help you check rating information.

You will also want to compare options. You can research rates at **www.immediateannuities.com**.

Note that each state runs a guaranty fund that may continue to pay your annuity (up to a defined limit) if the insurance company you bought through goes under. Some states limit the guarantee to annuities up to $100,000 in value.

For a longer discussion of annuities, refer to WISER's publication, *Making Your Money Last for A Lifetime*.

Ways to Increase Cash Flow in Retirement

You do have some possible options if you find you will not have enough income to maintain your desired lifestyle in retirement.

The first option is to **delay retirement**. This gives you more time to save and less time to support yourself financially. You can also earn higher Social Security benefits by delaying them, as we discussed earlier.

A second option is to **find part-time work in retirement**. Considering the nursing shortage this country is experiencing, you may be able to readily pick-up hours when you want them. You also might find consulting opportunities as a retired nurse.

A third option is to take out a **reverse mortgage**. With a reverse mortgage, you are borrowing against your home's equity. Through it, the financial institution pays you to stay in your home. The amount depends on the value of your home and the interest rate the lender charges. You do not have to pay back the loan as long as you are in the home.

To be eligible for a reverse mortgage, you have to be at least 62, own your home (or have a small mortgage), and live in it as your primary residence.

Reverse mortgages are highly complex, and should not be taken lightly. For more information, refer to a consumer advisory published in September 2009 by the federal Office of the Comptroller of the Currency. You can find the publication, "Reverse Mortgages: Are They Right For You?" online at **http://occ.gov/ftp/advisory/2009-2.pdf**.

How to Protect Your Assets

As a nurse, you are well aware of how a single event can turn lives upside down. Accidents, untimely deaths, and unexpected health challenges put families at significant financial risk. Having the right kind of insurance in place can help manage these risks.

Disability Insurance

Do you know that you are at a greater risk for becoming disabled than you are of dying prematurely? The financial risk to you and your family of a disabling disease or injury is much higher than most people understand.

A disability is an injury or illness that prevents you from working. Only a handful of disabilities result from workplace injury. Many more come from acute illnesses, like cancer or heart disease. Women are at higher risk of disability than men.

The Social Security program has a disability insurance component, but it is often difficult to qualify for the payments. Also, the benefits are not enough to meet living expenses. States have workers' compensation benefits, but very few disabilities come from workplace accidents. And these accidents are all that workers' compensation covers.

You need disability insurance to replace at least part of your income in the event an acute illness or serious injury prevents you from working. Disability insurance replaces part of your income, usually around 60% up to a specified amount, when an illness or injury is ongoing or permanent.

Some people have the opportunity to buy disability insurance through their employers. The cost in monthly payments, or premiums, is usually lower for group plans than it is if you buy insurance on your own.

When purchasing a disability insurance policy, it is important to choose an adequate benefit amount and a long enough benefit period to protect yourself and your family against the worst cases.

Life Insurance

Is your income a primary financial resource for your family? Do you depend on someone else for financial support? If you answered yes to either of these questions, you need life insurance.

When you carry life insurance, you are protecting your family's finances in the event you die. Likewise, carrying life insurance on your spouse or partner will provide financial protection in the event of his or her death.

There are two types of life insurance — **term** and **permanent**. Term life insurance provides coverage for a certain number of years. You can buy it for as little as one year or as long as twenty or thirty years. It only provides life insurance coverage. That is, it pays money to your beneficiaries if you die while you are covered by the policy. A term policy may be renewable, meaning you can renew or extend your policy without a medical exam. You may also be able to turn it into a permanent plan down the road. Some term policies guarantee that premiums will not increase.

Permanent insurance, also known as "whole life" or "cash value," is life insurance with a tax-deferred investment vehicle attached. When you make a payment to the life insurance company, part of the payment goes to provide life insurance death benefits and part goes to build up the cash value of the investment. You may be able to borrow against the value of the policy, but be sure you understand the terms of the loan.

The amount of life insurance you need rests on many factors, including who is depending on you for income and whether they have other sources of income to support them in place of yours. If your employer provides life insurance, learn what coverage it provides and decide if you need more. Keep in mind that life insurance generally costs more as you get older and that some people with serious health problems may not be able to buy it.

Social Security survivor benefits may be available to a parent of minor children following a spouse's death. It is an important and helpful income source in addition to (but not in place of) life insurance.

Review your life insurance needs whenever you have a major change in family or employment status. After you retire, you may need little or no life insurance unless you still expect to have dependents.

Long-Term Care Insurance

We have said earlier that women on average live longer than men. Living longer comes with the possibility of chronic illness or injury that could require assistance with everyday activities. Some people will rely on their kids or other relatives to help care for them. For those who can not or choose not to be cared for by a family member, long-term care insurance is an option.

Medicare does not cover most long-term care needs. This is where private long-term care insurance comes in. These policies can provide a wide choice of options, including services in one's own home to an assisted living facility or a nursing home. Long-term care insurance can pay for services that might let you stay in your own home when you are no longer able to do certain things for yourself. It can also help you afford more choices in the type of assisted living facility or other place you might prefer to live.

You can purchase a long-term care policy on your own, or sometimes through your employer. You can choose the amount of coverage, the deductible period and how long the benefits will last. Policies can also provide protection against inflation, a guarantee that premiums will not increase, various levels of care, and other levels of benefits. The cost partly depends on how old you are when you purchase it, and it generally increases with age.

Before you purchase any type of insurance, do your research. You want to go with a strong insurance company in good financial condition and a good reputation. Start with a visit to the National Association of Insurance Commissioners' website at **www.naic.org**.

How to Find a Financial Planner

"Neither my husband or I know anything about investing. Problem is, who do you go to for advice?"

Many people learn about financial planning by reading. They cull through the financial pages in newspapers or online and read financial magazines and books. In fact, our survey indicates that 40% of nurses read financial information as a way of preparing for retirement.

But some of us do not feel comfortable doing it on our own. That is when it is time to consider hiring a financial planner. We know from our focus group that nurses tend to be wary of financial planners. We heard concerns that "they're usually trying to sell you something," and "I don't like the high pressure sales tactics." You can find a planner you feel comfortable with, and this section tells you how.

You will find a wide variety of "investment professionals" out there, but not all professional designations are created equal. They can be lawyers, accountants, brokers, advisers, insurance agents or financial planners. For information on different professional designations and what they mean, refer to FINRA's database at **www.finra.org/investors**. For purposes of this guide, our focus is on financial planners.

A financial planner can offer a range of assistance – they can help you with one aspect of your financial picture, like insurance or retirement planning, or provide more comprehensive assistance that takes into account every aspect of your financial life.

Look for a financial planner who talks with you about risks, and what you are and are not comfortable with. You want to find someone who listens to you and understands you. Ask the advisor how the services he or she provides are paid for and how fees are calculated.

Ask How They Make Their Money

Financial planners can receive compensation in a number of ways. Some simply receive a salary for the services they provide. Others may charge a flat fee or hourly fee to develop a financial plan. Still others receive a commission for the products they sell, or a percentage of the value of assets they manage for you. To make it even more complicated, some work under a combination of fees and commissions.

You should ask every professional you interview to explain his or her fees and put it in writing. Understanding fee arrangements is essential in evaluating a professional's independence in making investment recommendations. That is why it is always a good idea to ask whether the person—or the person's firm—will receive any additional compensation for selling you a particular product, service, or type of account. Some companies offer incentives for selling certain products. In any case, you should be careful about doing business with a professional who does not want to discuss the fees and other charges that apply to your account. Remember, even if you do not have to pay a fee for a particular transaction, the professional is still getting compensated either directly or indirectly from fees.

Check Them Out Before You Commit

Before you begin to work with an investment professional—even one who someone you know has recommended—check his or her background. The Internet has made this kind of information relatively easy to find.

If the financial planner you are considering is a "registered broker," you can run a quick background check online through the FINRA BrokerCheck at **www.finra.org/brokercheck**. This tool can tell you if the professional has done a lot of job-hopping, and whether she or he has been the subject of customer disputes or regulatory action. You can also refer to the U.S. Security and Exchange Commission's Investment Advisor Public Disclosure database at **www.sec.gov/investor/brokers.htm**.

For help finding a fee-only financial planner, visit the National Association of Personal Financial Advisors online at **www.napfa.org**. Another resource for researching financial planners is the Certified Financial Planner Board of Standards, Inc., at **www.cfpboard.net**.

Finally, WISER has additional tools and resources to assist you with finding a financial professional. Check out WISER's fact sheets on finding and evaluating a financial planner at **www.wiserwomen.org**.

Financial To-Dos for the Decades

In Your 20's

Get into the habit of saving.

- Deposit five percent of your salary into your savings account each pay period.
- Start an emergency fund. You should have three to six months pay saved up in case you run into financial surprises — a job loss or expensive car repairs, for example.

Start saving for retirement.

- Sign up for your company's 401(k) if there is one. Contribute at least enough to get the full match.
- If you do not have a 401(k), open an IRA. Set up automatic monthly contributions from your checking account.

Strive for a debt-free life.

- While you need credit to build up a credit history, do not go overboard.
- Limit yourself to one credit card for emergencies, and pay the balance each month.
- If you have already piled up credit card debt, put as much money toward it as you can to pay it down as quickly as possible.

In Your 30's

Keep saving, and focus more on the investing part.

- Continue contributing to your 401(k) plan or IRA. Shoot for 10 percent of your paycheck.
- Take a look at how your 401(k) plan or IRA money is invested. At your age, you can afford to put a lot of your money in stock mutual funds.

Keep your debt in control.

- If you are buying a home, aim to put down 20% to avoid the cost of mortgage insurance that pays the lender in case you default. Your mortgage payment should be no more than 28% of your monthly income (based on lender guidelines).

Do an insurance checkup.

- If you have started a family, buy term life insurance that will protect them financially if you die.
- Assess your health insurance to make sure it meets your needs.
- Make sure you are covered by disability insurance. Check with your employer to see if you can purchase coverage through work.
- Make sure you are carrying enough car and homeowner's insurance. If you rent, make sure to get renters insurance to cover your losses in the event of theft, a fire, or other disaster.

In Your 40's

Refine your retirement saving strategy.

- Set a specific retirement savings goal. You can find many free retirement planning calculators on the web.
- Take a look at how your 401(k) plan or IRA money is invested. You are still young enough to keep a chunk of money in stock mutual funds.
- Do not be afraid to ask for help. A good financial planning professional can set and keep you on track to meet your goals.
- Review your insurance situation.

In Your 50's

- Revisit your retirement savings goal to make sure it still makes sense and that you are on track to reach it.
- If you are behind on saving, take advantage of higher contribution limits in 401(k)s and IRAs that are now available to you.
- Take a look at how your 401(k) or IRA money is invested. You can still afford to have a lot of your money in stock mutual funds.
- Review your insurance situation and explore long-term care insurance policies.

In Your 60's

Consider your retirement spending strategy.

- Determine the right option for you. Continue to invest your retirement assets, living off a small percentage each year, annuitize all or a portion of your retirement assets, or a little bit of both.

- At retirement, roll your 401(k) balance to an IRA to retain the tax benefits.
- If you earned a traditional pension, compare the payout options and make sure your choice does not exclude you from other retiree benefits.

Consider your health.

- Apply for Medicare three months before you turn 65.
- Carefully research the Medicare prescription drug coverage options (Medicare Part D) available to you to make sure you get the best coverage for your prescription needs, or check to see if your employer offers retiree prescription drug benefits.
- Look at Medigap policies available in your area to supplement Medicare coverage (learn more at **www.medicare.gov**).

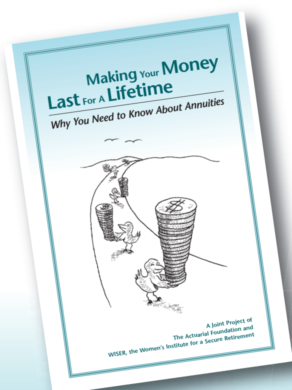
Consider dropping your life insurance when you no longer have dependents.

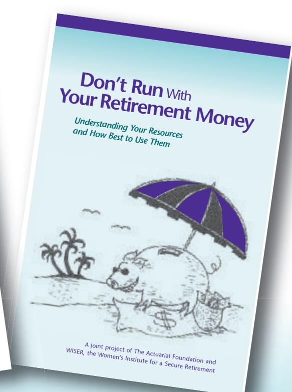
In Your 70's

- If you have a traditional IRA that you have not taken withdrawals from yet, you must start taking money out by age 70½. Otherwise you may get hit with a big tax penalty.
- Start collecting Social Security at age 70 if you have delayed your benefit.
- If you are in good health and need more income, consider using some of your savings to buy an immediate annuity.

Also of Interest

These publications are also available from WISER. A complete list of WISER's publications and fact sheets, as well as ordering information can be found at **www.wiserwomen.org**.





The **Nurses' Investor Education Project** works with state nurses associations to conduct train-the-trainer and financial education workshops. Partnerships are currently underway with the following state nurses associations:

Arizona Nurses Association
www.aznurse.org

Maine Nurses Association
www.anamaine.org

Missouri Nurses Association
www.missourinurses.org

Nebraska Nurses Association
www.nebraskanurses.org

South Dakota Nurses Association
www.sdnursesassociation.org

Virginia Nurses Association
www.virginianurses.com

Information and retirement planning resources are available for free download on the Nurses' Investor Education Project website, which can be found by visiting www.wiserwomen.org. Resources include:

- *The Busy Nurse's Guide to Financial Planning*
- *The Busy Nurse's Financial Planning Workbook*
- *Nurses' Retirement Decision Making Guide*
- 5 Minute Podcasts to Help You Plan for Retirement
- Financial Education Webinars

If you are interested in scheduling a training for nurses at your workplace, contact:

Women's Institute for a
Secure Retirement
Phone: 202-393-5452
info@wiserwomen.org

Center for American Nurses
Phone: 301-628-5063
laurel.blaydes@centerforamericannurses.org

Acknowledgements

This guide was adapted from *Money & Retirement, A Simple Guide to What Everyone Needs to Know*, authored by Cindy Hounsell, President of the Women's Institute for a Secure Retirement and Jeffrey R. Lewis, President of the Heinz Family Philanthropies.

Special thanks to Kathy Stokes, Dick Schreitmueller, Wylecia Harris, Terri Haller, Lara Hinz, Mary Pettigrew, and Anna Rappaport.

WISER®

THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

CENTER for American Nurses

Serving the Needs of Nurses Today & Tomorrow

FINRA Investor Education FOUNDATION